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SUBJECT: MOBI 63 SOLD FOR EUR 1.513 BILLION

REF: A) Belgrade 673, B) Belgrade 447, C) 05 Belgrade 582

SUMMARY

1. On August 1, the largest Norwegian mobile operator Telenor signed the sales agreement with the Government of Serbia (GOS) to buy Serbian mobile operator Mobi 63 (former Mobtel) for EUR 1.513 billion. Telenor won the televised auction organized the day before, competing with Austrian Mobilkom and Egyptian Orascom Telecom. The achieved price at the auction is a record in the current privatization process in Serbia, and this single transaction equals the total foreign direct investment (FDI) in Serbia and Montenegro for 2005. The sale brings to an end the saga of former Mobtel's dispute over ownership structure between the GOS and Milosevic's tycoon Bogoljub Karic as former owner, while setting the stage for future competition.

TELEVISED AUCTION FOR MOBI 63

2. On July 31, three companies participated in the international televised auction: Norwegian Telenor, Austrian Mobilkom and Egyptian Orascom Telecom. Each company submitted binding offers on July 26. Bids could not be lower than EUR 800 million, which included EUR 320 million for the operating license, and the highest bid was the starting price of the auction. The announced starting price at the auction was EUR 1.373 billion. Mobilkom and Telenor accepted the starting price, but Orascom withdrew from the competition. After ten rounds of bidding, the final accepted price by both parties was EUR 1.513 billion. According to the rules of the auction, binding offers were read and the highest offer won. Telenor had offered EUR 1.373 billion while Mobilkom offered EUR 805 million. In spite of expectations that Mobilkom had been sought as a new owner of Mobi 63, Telenor confidently led the auction from the beginning, leaving no doubts about the outcome of the auction.

3. At the press conference after signing the contract with Telenor, Mladjan Dinkic, Minister of Finance, expressed delight with the high price and good deal with the Norwegians. He said that the achieved price for Mobi 63 is equal to the total value of four months of Serbian exports and equal to three-month net pay of the entire Serbian workforce. He expects that this transaction will raise the amount of FDI in 2006 to a record USD 3.5 billion.

TWO CRUCIAL POINTS IN NEGOTIATION WITH SCHLAFF

4. Dinkic gave a brief history of the dispute between Karic and the GOS over the ownership rights in Mobtel (reftel B), Karic's intention to sell the company to various investors (reftel C), and his eventual sale to the group of Austrian investors led by Martin Schlaff. He stressed that the GOS's decision to protect its interests in Mobtel against Karic by revoking Mobtel's operating license in December 2005 (reftel A) was a crucial point for starting negotiations with

Schlaff. The GOS then authorized the state-owned postal company PTT Srbija to take over Mobtel's debts of EUR 92.4 million from Raiffeisen Bank and Hypo-Alpe-Adria Bank and become the majority creditor of Mobtel, which enabled the state to become owner of 70 percent of the assets in Mobtel. At the same time, the GOS made a deal with Schlaff whereby the Austrians took over Mobtel's debt of EUR 39.6 million from Swedish Ericsson for the equipment and became owner of 30 percent of the assets. They reached an agreement in April 2006 to create a new company named Mobi 63 in which there was a 70/30 share between the GOS and the Austrians respectively. The agreement called for an auction of Mobi 63 which included equipment owned by Mobi 63, the operating license and the entire subscription network with the obligation of the future owner to take all of the 960 employees in Mobtel after the transaction.

¶15. Dinkic admitted that the negotiations with Schlaff were tough. Schlaff wanted a direct deal with the GOS, estimating that the GOS could get some EUR 200 to 250 million from Mobtel. On the other hand, the GOS had insisted on auctioning Mobi 63 from the beginning. In addition, Schlaff insisted on minority rights based on his 30 percent which was unacceptable for the GOS. Dinkic said that the GOS's response to that request was also crucial to the successful sale. The GOS suggested that if the price was higher than EUR 1.1 billion, Schlaff would have to sell their share in Mobi 63. Otherwise, if the price was lower than EUR 1.1 billion, they could decide whether or not to sell their share to the new owner with the obligation to pay the new owner EUR 96 million for 30 percent of the license and if they decided not to sell their share. Dinkic thinks that this move contributed to a higher price for Mobi 63 since the owner had to offer more than EUR 1.1 billion to become 100 percent owner of the company.

HOW TO SPEND MORE THAN A BILLION EUROS

¶16. Dinkic expects that the total price will be paid by the end of August. He said that the GOS would get EUR 1.1551 billion from this transaction plus EUR 30 million from Mobtel's operational revenues since December 2005. From this EUR 1.1851 billion, the city of Belgrade will receive some EUR 3.6 million in tax revenues, and PTT Srbija will receive some EUR 100 million to pay back their debts to banks. The privatization advisor, Consortium Rothschild, will receive 0.293 percent or EUR 4.434 million from the sales price. The Austrian investors will receive EUR 357.9 million which could potentially be much more than they originally invested in Mobtel. Dinkic said that all of the GOS's proceeds would be spent on investments.

POSSIBILITY FOR A THIRD LICENSE

¶17. Shortly after the auction, Austrian Mobilkom announced its plans to apply for a third mobile telephony license on the Serbian market. When asked at the press conference if this was possible, Dinkic said that a third operator would be welcomed, citing the benefits to the GOS and customers from increased competition. The starting price for the third license will not be less than EUR 320 million for two and a half years and is part of the deal with the new owner to allow for time to consolidate the company.

¶18. Upon receiving documentation from a potential investor, the Regulatory Agency for Telecommunications, which is responsible for issuing licenses, will call an international tender to collect potential bids with a deadline of no longer than 45 days, followed by a procedure to choose the best bid within four months. Dinkic said that the third operator would only receive the license and would have the costs of establishing the company and network. Dinkic also mentioned that the GOS has no intention of selling its stake in the state-owned mobile and landline operator Telekom Srbija, nor change its ownership structure before 2010.

TELENOR PLEASED WITH OUTCOME

¶9. Jan Edvard Thygesen, Telenor's Director for Central and Eastern Europe, expressed gratitude to the GOS for the transparent process and professionally-organized auction. He said that the price for Mobi 63 was high but reasonable and supported by the market since the shares of Telenor did not drop after the purchase. He sees this transaction as an investment in the future referring to Telenor's intention to become the leader in the region and serve customers according to the principle "better value for the money". Telenor operates in 12 Asian and European countries and is owner of Promonte mobile operator in Montenegro. They had annual turnover of EUR 2.5 billion and approximately 100 million customers worldwide.

EFFECTS OF PRIVATIZATION IMMEDIATELY EVIDENT

¶10. In contrast to the bad GOS decision not to sell majority ownership in the NIS oil refinery (septel), this real privatization has yielded immediate, positive results for the government and the economy. Just days after the sale, Telekom Srbija announced plans to launch 3G mobile technology in larger Serbian cities late this year as competition arrives. The technology will offer users new services such as high-speed internet and video calling. Drasko Petrovic, General Manager of Telekom Srbija, said that Telekom is ready for competition and believes the increased competition will be good for the Serbian telecom market and economy. When asked about the potential arrival of a third mobile operator, Petrovic said that it will not pose a threat because there is "enough room for everybody" in the market.

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